



Consolidated Financial Statements of

**SASKATCHEWAN TELECOMMUNICATIONS
INTERNATIONAL INC.**

December 31, 2001

January 18, 2002

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Auditors' Report

**To the Members of the Legislative Assembly,
Province of Saskatchewan**

We have audited the consolidated statement of financial position of **Saskatchewan Telecommunications International, Inc.** as at December 31, 2001 and the consolidated statements of operations, retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the corporation as at December 31, 2001 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants

CONSOLIDATED STATEMENT OF OPERATIONS

For the year ended December 31
(Thousands of dollars)

	2001	2000
Sales and consulting revenue	\$ 17,979	\$ 22,188
<u>Direct expenses</u>	<u>13,032</u>	<u>16,054</u>
Gross profit	4,947	6,134
<u>Operating expenses</u>	<u>4,323</u>	<u>4,770</u>
Operating income	624	1,364
Other items	302	171
<u>Income from management contract</u>	<u>-</u>	<u>614</u>
<u>Net income</u>	<u>\$ 926</u>	<u>\$ 2,149</u>

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

For the year ended December 31
(Thousands of dollars)

	2001	2000
Retained earnings, beginning of year	\$ 7,466	\$ 6,500
<u>Net income</u>	<u>926</u>	<u>2,149</u>
	8,392	8,649
<u>Dividends</u>	<u>834</u>	<u>1,183</u>
<u>Retained earnings, end of year</u>	<u>\$ 7,558</u>	<u>\$ 7,466</u>

See Accompanying Notes

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at December 31
(Thousands of dollars)

	2001	2000
Assets		
Current assets		
Cash	\$ 174	\$ 1,229
Short-term investments (Note 3)	5,311	4,318
Accounts receivable	1,844	3,096
Work in process	801	1,469
	8,130	10,112
Due from SaskTel Holding (New Zealand) Inc. (Note 4)	1,967	1,967
Furniture and equipment (Note 6)	343	377
	<u>\$ 10,440</u>	<u>\$ 12,456</u>
Liabilities and shareholder's equity		
Current liabilities		
Accounts payable	\$ 1,882	\$ 2,413
Unearned revenue	-	987
Dividend payable	-	590
	1,882	3,990
Shareholder's equity		
Share capital		
Authorized-unlimited number of class A common shares		
Issued - 1,000,000 shares	1,000	1,000
Retained earnings	7,558	7,466
	8,558	8,466
	<u>\$ 10,440</u>	<u>\$ 12,456</u>

See Accompanying Notes

On behalf of the Board

Garry Simons

R. Stephanson

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31
(Thousands of dollars)

	2001	2000
Cash provided by (used in):		
Operating activities		
Net income	\$ 926	\$ 2,149
Items not affecting cash from operations	106	(408)
Net change in non-cash working capital items (Note 7)	402	(2,047)
	1,434	(306)
Financing activities		
Dividends	(1,424)	(3,163)
	(1,424)	(3,163)
Investing activities		
SaskTel Holding (New Zealand) Inc.	-	1,460
Capital expenditures	(72)	(16)
	(72)	1,444
Decrease in cash	(62)	(2,025)
Cash and cash equivalents, beginning of year	5,547	7,572
Cash and cash equivalents, end of year	\$ 5,485	\$ 5,547
Comprised of:		
Cash	\$ 174	\$ 1,229
Short-term investments	5,311	4,318
	\$ 5,485	\$ 5,547

See Accompanying Notes

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 -- The Corporation

Saskatchewan Telecommunications International, Inc. (the Corporation) is incorporated under the laws of the Province of Saskatchewan. The Corporation is a wholly owned subsidiary of Saskatchewan Telecommunications Holding Corporation (Holdco) with the mandate of pursuing core telecommunications business opportunities worldwide.

The financial results of the Corporation are included in the consolidated financial statements of Holdco. As a wholly owned subsidiary of Holdco, a Saskatchewan Provincial Crown corporation, the Corporation is not subject to Federal or Provincial income taxes in Canada.

Note 2 -- Summary of significant accounting policies

The financial statements have been prepared in accordance with accounting principles generally accepted in Canada. The most significant policies are outlined below.

Consolidation

The consolidated financial statements include the accounts of the Corporation and its subsidiaries, SaskTel International Consulting, Inc. and Saskatchewan Telecommunications International (Tanzania) Limited. All significant intercompany transactions and balances have been eliminated.

Revenue

Operating revenues from the sale of software, equipment and consulting services are recognized at the point of sale or when services are performed. For longer term consulting contracts, the percentage of completion method is used.

Work in process

Work in process is valued at the lower of cost and net realizable value.

Furniture and equipment

Furniture and equipment is recorded at cost less accumulated depreciation. Depreciation is computed on a straight-line basis over 17 and 4 years for furniture and equipment respectively.

Unearned revenue

Unearned revenue is comprised of amounts billed to customers for which services have yet to be delivered.

Foreign currency translation

Monetary assets expressed in foreign currencies are recorded in Canadian dollars at the foreign exchange rate prevailing at year-end. Foreign exchange gains and losses arising on translation are charged to income or expense in the current year. Unrealized gains and losses on monetary assets identified as hedges are deferred and recognized on a basis consistent with the underlying hedged transactions.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. The inherent uncertainty involved in making such estimates and assumptions may impact the actual results reported in future periods.

Note 3 -- Short-term investments

The balance consists of funds invested with Holdco at an average current market interest rate of 4.19% (2000 - 5.36%).

Note 4 -- Due from SaskTel Holding (New Zealand) Inc.

At December 31, 2001, SaskTel Holding (New Zealand) Inc. held common shares of Austar United Communications Limited (Austar) of which 428,333 are attributable to the amount due to the Corporation. When the Austar shares are sold, the proceeds will be paid to the Corporation.

At year-end the quoted market value per share of Austar was \$0.224 (.275 AUD) (2000 - \$1.80 (2.16 AUD)). The corresponding market value of the investment was \$96,000 (2000 - \$771,000). The current trading price is not always indicative of the final net realizable value by the Corporation. In the Corporation's judgement, the trading value of the Austar shares does not reflect the fair value of the shares to which the receivable is attributed. The Corporation has reviewed the business, industry, economic, and other market conditions and has concluded that a number of factors have created downward pressure on the share price for Austar and that there is upside potential for these shares.

Note 5 -- Measurement uncertainty

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. The inherent uncertainty involved in making such estimates and assumptions may impact the actual results reported in future periods.

In particular, the Corporation is concerned about the significant uncertainty surrounding the carrying value of the receivable due from SaskTel New Zealand Holding Inc. Over the past two years, the Austar shares have traded in the range of .15 to 9.90 AUD per share, closing at .275 AUD at December 31. The shares are thinly traded with over 80% held by one investor. In addition, Austar recently concluded a significant debt refinancing, the majority shareholder has committed to further financial support, and Austar is in discussions with potential merger or alliance partners. The Corporation will continue to monitor the carrying value of its receivable.

Note 6 -- Furniture and equipment

	2001	2000
	(Thousands of dollars)	
Furniture and equipment	\$ 627	\$ 658
<u>Less accumulated depreciation</u>	<u>284</u>	<u>281</u>
	<u>\$ 343</u>	<u>\$ 377</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**Note 7 -- Net change in non-cash working capital items**

	2001	2000
	(Thousands of dollars)	
Accounts receivable	\$ 1,252	\$ 245
Work in process	668	(72)
Accounts payable	(531)	543
Unearned revenue	(987)	(2,763)
	<u>\$ 402</u>	<u>\$ (2,047)</u>

Note 8 -- Financial instruments

The Corporation's primary business is international telecommunications consulting, through contracts, which entails exposure to foreign exchange risk. The Corporation's foreign exchange risk relates primarily to the risk that the market value of accounts receivable and the associated revenues, and accounts payable and the associated expenses will fluctuate due to changes in exchange rates. A portion of the Corporation's accounts receivable and accounts payable are denominated in US Dollars, Euros and Tanzania Schillings.

The Corporation is exposed to credit risk relating to accounts receivable balances from international contracts. The accounts receivable balances are primarily from large telecommunications companies or international government development agencies.

Note 9 -- Related party transactions

Included in these financial statements are transactions with various Saskatchewan Crown corporations, departments, agencies, boards and commissions related to Crown Investments Corporation of Saskatchewan (CIC) by virtue of common control by the Government of Saskatchewan and non-Crown corporations and enterprises subject to joint control and significant influence by the Government of Saskatchewan and Holdco (collectively referred to as "related parties").

Routine operating transactions with related parties are settled at prevailing market prices under normal trade terms. These transactions and amounts outstanding at year-end are as follows:

	2001	2000
	(Thousands of dollars)	
Sales and consulting revenue	\$ 1,605	\$ 1,914
Direct and operating expenses	1,639	1,439
Short-term investments	5,311	4,318
Accounts payable	455	740

In addition, the Corporation pays Saskatchewan Provincial Sales Tax to the Saskatchewan Department of Finance on all taxable purchases. Taxes paid are recorded as part of the cost of those purchases.

Other amounts and transactions due to (from) related parties and terms of settlement are described separately in these financial statements and notes thereto.